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Thailand

Trade Policy Monitoring

U.S. Exports Threatened by ASEAN-China Accord 2003

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Report Highlights:

The Early Harvest Program between ASEAN and China will lower tariffs and may reduce U.S. fruit and nut exports to Thailand by 15-20% over the next 3-4 years.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Bangkok [TH1], TH

Thailand and China agree to reduce vegetable and fruit import duties

Thailand and China had agreed in early 2003 to begin the Early Harvest as stipulated under the agreement on the ASEAN-China Free Trade Area. On June 18, 2003, Commerce Ministers of the two countries officially signed on June 18, 2003 the Agreement on Accelerated Tariff Elimination on Vegetables and Fruits. As a result of this agreement, the import duties on vegetables, fruits, and tree nuts (harmonized codes of chapter 07 and 08) between the two countries will be reduced to zero as of October 1, 2003.

Background information on ASEAN-China Free Trade Area

The ASEAN-China Summit in Brunei in November 2001 agreed to establish an ASEAN-China Free Trade Area (ASEAN-China FTA) within ten years, with recognition of a difference in a level of economic development among the parties. The areas of economic co-operation includes: (1) agriculture; (2) information and communication technology; (3) human resources development; (4) investment; and (5) Mekong River basin development.

In the area of trade in goods, ASEAN and China agreed in principle that the tariff schedule among the parties should be reduced substantially on all trade in goods. As a result, the product coverage will be for HS code chapters of 01 (live animals), 02 (meat and edible meat offal), 03 (fish), 04 (dairy products), 05 (other animal products), 06 (live plants), 07 (edible vegetables), and 08 (edible fruits and nuts).

Tariff Reduction and Elimination Plan

The products in the covered items, which are not covered by the Early Harvest Program, will be categorized into 2 Tracks: Normal Track and Sensitive Track:

- (a) Normal Track: the applied MFN tariff rates * for products listed in the Normal Track will be gradually reduced or eliminated over a period from 2005 to 2010 for ASEAN 6 (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand) and China. In the case of the newer ASEAN member states (Cambodia, Laos, Burma, Vietnam), the period will be from 2005 to 2015.
- (b) Sensitive Track: The applied MFN tariff rates for products listed in this Track will be reduced in accordance with the mutual agreed end rates and end dates among ASEAN member states and China.

Note: * Applied MFN tariff rates shall:

- (i) in the case of ASEAN Member States (that are WTO members as of 1 July 2003) and China, refer to their respective applied rates as of July 1, 2003; and
- (ii) in the case of ASEAN Member States (which are non-WTO members as of 1 July 2003), refer to the rates as applied to China as of July 1, 2003;

Early Harvest Program

In order to accelerate the implementation of this Agreement, the ASEAN Parties agreed to implement an Early Harvest Program. Products covered by the Early Harvest Program will include: 1) products of HS Code Chapter 01-08, unless otherwise excluded by a Party in its Exclusion List; and 2) specific products set out in Annex 2 of the Agreement. As ASEAN 6 has no exclusion of any product, this means all commodities from Chapter 01 to Chapter 08 will be included in the Early Harvest Program.

The product categories for tariff reduction and elimination under the Early Harvest Program are broken into 3 product categories, defined as follows:

Item	China and ASEAN 6	New ASEAN States
Category 1	MFN rates >15%	MFN rates > 30%
Category 2	MFN rates 5-15%	MFN rates 15-30%
Category 3	MFN rates <5%	MFN rates <15%

The implementation time frames under the Early Harvest Program are determined as follows:

China and ASEAN 6 (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand):

Product Category	Not later than 1 Jan 2004	Not later than 1 Jan 2005	Not later than 1 Jan 2006
1	10%	5%	0%
2	5%	0%	0%
3	0%	0%	0%

China and the newer ASEAN Member States (Cambodia, Laos, Burma, Vietnam):

Country	1 Jan 2004	1 Jan 2005	1 Jan 2006	1 Jan 2007	1 Jan 2008	1 Jan 2009	1 Jan 2010
<i>Vietnam:</i>							
Product Category 1	20%	15%	10%	5%	0%	0%	0%
Product Category 2	10%	10%	0-5%	0-5%	0%	0%	0%
Product Category 3	5%	5%					

<i>Laos and Burma:</i>							
Product Category 1	-	-	20%	14%	8%	0%	0%
Product Category 2	-	-	10%	10%	5%	0%	0%
Product Category 3	-	-	5%	5%	0-5%	0%	0%
<i>Cambodia:</i>							
Product Category 1	-	-	20%	15%	10%	5%	0%
Product Category 2	-	-	10%	10%	%	5%	0%
Product Category 3	-	-	5%	0-5%	5%	0-5%	0%

Potential impact on U.S. agricultural exports to Thailand

The tariff reduction under the free trade area agreement will immediately benefit the Chinese agricultural products (chapter 01-08) coming into Thailand at the expense of U.S. and others. However, it is anticipated that this threat should be limited initially to fruits and nuts due to the direct competition that Chinese products present to these U.S. particular products in the Thai market.

Tariff rates applied to U.S. and Chinese agricultural products in 2004-2006 under the Thailand-China Free Trade Agreement's Early Harvest Program

Commodity	U.S.A.			China		
	2004	2005	2006	2004	2005	2006
Dried peas, beans, lentils	40%	n/a	n/a	0%	0%	0%
Other nuts (mostly almonds)	10%	10%	10%	0%	0%	0%
Grapes, fresh	30%	n/a	n/a	0%	0%	0%
Raisins	30%	n/a	n/a	0%	0%	0%
Apple, fresh	10%	10%	10%	0%	0%	0%
Pears & quinces	30%	n/a.	n/a	0%	0%	0%
Plum & sloes	40%	n/a	n/a.	0%	0%	0%

Note: The tariff schedule for most agricultural products imported from the U.S. correspond to the WTO bound rates. However, these bound rates for 2005 and 2006 are not yet available, reflecting the pending WTO trade negotiations.

Thailand's imports of U.S. and Chinese fruits and nuts during 2000-2002

Commodity	U.S.A. (unit: USD 1,000)			China (unit: USD 1,000)		
	2000	2001	2002	2000	2001	2002
Dried peas, beans, lentils	108.8	211.0	171.4	595.5	762.6	787.7
Other nuts (mostly almonds)	1,249.2	1,457.1	1,589.7	72.2	30.5	14.4
Grapes, fresh	4,019.0	3,867.6	3,999.3	0	14.1	24.0
Raisins	239.0	277.8	235.9	0	3.0	4.0
Apple, fresh	14,054.4	16,608.8	11,744.6	18,436.7	18,188.2	19,460.8
Pears & quinces	2.3	23.1	0.5	1,389.1	1,492.9	3,224.4
Plum & sloes	129.7	94.2	56.3	1.0	1.0	0

The possible impact on U.S. exports of fruits and nuts in 2004-2006

In 2004, China will begin to enjoy import duties of 0% on its exports of fruits and nuts to Thailand, against 30-40% tariff rates on most U.S. products, except for the tariff rate of 10% on fresh apples and unprocessed nuts. The import duties published on most U.S. products in 2005 and 2006 are not available yet, depending on the result of pending WTO trade negotiation and possible Thailand-U.S. free trade accord. While Chinese products will be less expensive than U.S. products, trade sources reported that the present quality of Chinese products is generally inferior to that from the U.S. product quality. Most traders agree that it will take several years to improve Chinese product quality to be on par with U.S. products.

All in all, it is anticipated that, due mainly to the price disadvantage, the major U.S. exports of fruits and nuts to Thailand could be reduced by 15-20% by 2006, from USD 18.1 million in 2003 to USD 15.0 million. According to trade sources, the heaviest hit items from the U.S. will be apples, dried beans, and raisins, reflecting the substitutability by Chinese products. The analysis of the possible reduction in U.S. exports of fruits and nuts is indicated as follows:

Commodity	U.S.A. (unit: USD 1,000)				
	2002	2003	2004	2005	2006
Dried peas, beans, lentils	171.4	160	120	100	80
Other nuts (mostly almonds)	1,589.7	1,620	1,550	1,530	1,500
Grapes, fresh	3,999.3	4,020	3,990	3,800	3,700
Raisins	235.9	240	180	120	100
Apple, fresh	11,744.6	12,000	10,500	10,000	9,600
Pears & quinces	0.5	0.5	0.5	0.5	0.5
Plum & sloes	56.3	55	40	30	20
Total	17,797.7	18,095.5	16,380.5	15,580.5	15,000.5

Conclusion

Barring any move to reduce tariffs on U.S. products until the conclusion of the Doha round or a U.S.-Thai FTA, the quality, safety, and dependability of U.S. products will have to be recognized by Thai importers and consumers. Buyers who make their decision on price alone will likely migrate to Chinese suppliers. However, there are things that can be done to reinforce the benefits of buying U.S. over Chinese.

1. All participants in the marketing chain -- producer, packer, exporter, cooperator, importer, merchant, and FAS -- need to focus market development efforts on the value of U.S. products versus Chinese competition. Our collective efforts need to target the quality and health conscious consumer, assuring him/her value and wholesomeness for his/her money.
2. This early harvest is not a comprehensive FTA by any means. The U.S. and Thailand are in the budding stages of discussing a comprehensive FTA. Realization of such a monumental step in Thai-U.S. trade relations would throw the doors wide open for

U.S. agricultural products compared to other origins. An FTA with Thailand would virtually guarantee a competitive edge for most any U.S. agricultural product, especially fruits and nuts which are about to lose considerable market share to less expensive Chinese substitutes.